Department of Veterans Affairs Financial Presentation

CONSOLIDATED BALANCE SHEET
as of September 30,

(dollars in millions)

	1999	1998
Assets		
Intragovernmental		
Fund Balance with Treasury (Note 2)	**$ 16,198**	$ 14,256
Investments (Note 4)	**14,572**	14,612
Accounts Receivable, Net (Note 5)	**731**	542
Other Assets (Note 6)	**181**	189
Total Intragovernmental Assets	**31,682**	29,599
Public		
Investments (Note 4)	**239**	425
Accounts Receivable, Net (Note 5)	**579**	608
Loans Receivable, Net (Note 7)	**4,156**	3,578
Cash (Note 3)	**61**	39
Inventories (Note 8)	**76**	90
General Property, Plant and Equipment (Note 9)	**12,036**	11,941
Other Assets (Note 6)	**22**	38
Total Assets	**48,851**	46,318
Liabilities		
Liabilities Covered by Budgetary Resources		
Intragovernmental		
Accounts Payable	**30**	91
Debt (Note 10)	**2,540**	1,777
Other Liabilities (Note 11)	**3,127**	2,685
Total Intragovernmental Liabilities	**5,697**	4,553
Public		
Accounts Payable	**2,336**	2,324
Liabilities for Loan Guarantees (Note 7)	**5,808**	4,705
Insurance Liabilities (Note 14)	**12,852**	12,935
Other Public Liabilities (Note 11)	**3,875**	3,581
Total Liabilities Covered by Budgetary Resources	**30,568**	28,098
Liabilities Not Covered by Budgetary Resources		
Federal Employees and Veterans Benefits Liability (Note 13)	**484,420**	579,459
Environmental and Disposal Liabilities (Note 17)	**199**	139
Insurance Liabilities (Note 14)	**524**	524
Other Liabilities (Note 11)	**1,300**	1,262
Total Liabilities Not Covered by Budgetary Resources	**486,443**	581,384
Total Liabilities	**517,011**	609,482
Net Position		
Unexpended Appropriations (Note 15)	**4,748**	4,729
Cumulative Results of Operations	**(472,908)**	(567,893)
Total Net Position	**(468,160)**	(563,164)
Total Liabilities and Net Position	**$ 48,851**	$ 46,318

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST
Years Ended September 30,

(dollars in millions)		
Net Program Costs	**1999**	1998
Medical Care	**$ 17,573**	$ 17,176
Medical Education	**830**	833
Medical Research	**650**	575
Compensation	**(75,607)**	126,267
Pension	**3,249**	3,228
Education	**944**	964
Vocational Rehabilitation and Counseling	**509**	502
Loan Guaranty	**1,251**	1,317
Insurance	**71**	180
Burial	**(598)**	1,314
Net Intra-VA Eliminations		1
Total Net Program Costs*	**(51,128)**	152,357
Net Non-VA Program Costs	**10**	26
Net Cost of Operations (Note 19)	**$(51,118)**	$152,383

*The change in net compensation costs between FY 1999 and FY 1998 is due to fluctuations in the actuarial out-year liability as detailed in Note 13.

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
Years Ended September 30,

(dollars in millions)	1999	1998
Net Cost of Operations (Note 19)	**$(51,118)**	$152,383
Financing Sources (Other than Exchange Revenues)		
Appropriations Used	**44,367**	42,484
Other Non-Exchange Revenue	**3**	3
Donations (Non-Exchange Revenue)	**44**	43
Imputed Financing	**786**	760
Transfers-In	**32**	476
Transfers-Out	**(700)**	(995)
Other Financing Sources		23
Subtotal	**44,532**	42,794
Net Results Of Operations	**95,650**	(109,589)
Increase or Decrease in Unexpended Appropriation and Non-Operating Changes	**(589)**	(332)
Current Period Change in Net Position	**95,061**	(109,921)
Net Position Reconciliation		
Net Position-Beginning of Period	**(563,164)**	(453,659)
Prior Period Adjustments Add or Subtract (Note 22)	**3**	416
Cumulative Effect of Change in Accounting Principle	**(60)**	
Current Period Change in Net Position	**95,061**	(109,921)
Net Position-End of Period	**$(468,160)**	$(563,164)

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES (NOTE 18)
Years Ended September 30,

(dollars in millions)	**1999**	1998
Budgetary Resources		
Budget Authority	**$47,609**	$45,109
Unobligated Balance at the Beginning of the Period	**20,034**	21,007
Net Transfers-Prior Year Balance	**(41)**	213
Spending Authority from Offsetting Collections	**9,488**	8,047
Adjustments	**(1,395)**	(3,248)
Total Budgetary Resources	**75,695**	71,128
Status of Budgetary Resources		
Obligations Incurred	**54,250**	51,094
Unobligated Balance Available	**15,823**	15,107
Unobligated Balance Not Yet Available	**5,622**	4,927
Total Status of Budgetary Resources	**75,695**	71,128
Outlays		
Obligation Incurred	**54,250**	51,094
Less Spending Authority from Offsetting Collections and Adjustments	**(9,868)**	(8,463)
Subtotal	**44,382**	42,631
Obligated Balance, Net Beginning of Period	**7,335**	6,864
Less Obligated Balance, Net End of Period	**(7,098)**	(7,286)
Total Outlays	**$44,619**	$42,209

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF FINANCING
Years Ended September 30,

(dollars in millions)	1999	1998
Obligations and Non-budgetary Resources		
Obligations Incurred	**$ 54,250**	$ 51,094
Less Spending Authority from Offsetting Collections and Adjustments	**(9,868)**	(8,463)
Donations Not in the Entity's Budget	**15**	13
Financing Imputed for Cost Subsidies	**786**	760
Transfers-In (Out)	**1,099**	1,496
Exchange Revenue Not in the Entity's Budget	**(13)**	(13)
Less Trust Fund Receipts Related to Exchange Revenue in VA's Budget	**(1,146)**	(1,193)
Other Financing Sources	**(570)**	(566)
Total Obligations as Adjusted and Non-budgetary Resources	**44,553**	43,128
Resources That Do Not Fund Net Cost of Operations		
Change in Amount of Goods, Services		
and Benefits Ordered But Not Yet Provided	**474**	257
Change in Unfilled Customer Orders	**(45)**	77
Costs Capitalized on the Balance Sheet	**(4,750)**	(4,613)
Financing Sources that Fund Costs of Prior Periods	**(95,081)**	(216)
Collections that Decrease Credit Program		
Receivables or Increase Credit Liabilities	**260**	
Other	**1,713**	2,152
Total Resources That Do Not Fund Net Costs of Operations	**(97,429)**	(2,343)
Costs That Do Not Require Resources		
Depreciation and Amortization	**906**	858
Bad Debts Related to Uncollectible Non-Credit Reform Receivables	**118**	183
Revaluation of Assets and Liabilities	**1**	(24)
Loss on Disposition of Assets	**124**	236
Other	**(150)**	
Total Costs That Do Not Require Resources	**999**	1,253
Financing Sources Yet To Be Provided	**759**	110,345
Net Cost of Operations	**$(51,118)**	$152,383

The accompanying notes are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Tabular dollars in millions

Note 1 Summary of Significant Accounting Policies

Reporting Entity

The purpose of the Department of Veterans Affairs (VA) is to provide medical care, benefits, social support, and lasting memorials to veterans, their dependents, and beneficiaries (38 U.S.C. §301(b) 1997).

Basis of Presentation

The financial statements have been prepared to report the financial position and results of VA's financial operations pursuant to the requirements of 31 U.S.C. §3515(b). While the statements have been prepared from VA's books and records in accordance with the formats prescribed by OMB, the statements are in addition to the financial reports used to monitor and control budgetary resources which are prepared from the same books and records. The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

Basis of Accounting

VA accounts for its appropriations and funds in four lines of business: VHA, VBA, NCA, and Departmental Administration. VA's Consolidated Balance Sheet aggregates these four lines of business. The Consolidated Statement of Net Cost separates all VA costs by the 10 programs outlined in VA's Strategic Plan. The financial statements have been prepared in accordance with the Form and Content guidance specified by OMB and the Statements of Federal Financial Accounting Standards (SFFAS). The principles and methods applied to significant assets, liabilities, revenue, and costs are contained in the following individual footnotes.

Exchange revenues are recognized when earned. Expenses generally are recognized when incurred, and non-exchange revenues, (e.g., donations) are recognized on a modified cash basis. Remittances of non-exchange revenues are recognized when received, and related receivables are recognized when measurably and legally collectible, as are refunds and related offsets. This basis of accounting differs from that used for budgetary reporting. All significant intra-agency balances and transactions have been eliminated in consolidation.

Interest income, which is earned primarily from the investments of VA's life insurance program, is recognized on the accrual basis. Insurance premiums are recognized as revenue when due. Loan origination fees are recognized as revenue at the time of the guaranty.

Current or prior year appropriations are not available to fund certain accrued expenses (e.g., annual leave earned but not taken, future period veterans compensation and burial benefits, and insurance premiums for disabled veterans funded by appropriations). These expenses are financed (funds appropriated) in the year payments are made.

Note 2 Fund Balance with Treasury

The U. S. Department of the Treasury performs cash management activities for all government agencies. The Fund Balance with Treasury represents the right of the Department to draw on the U. S. Treasury for allowable expenditures.

The Trust Fund Balances consist primarily of amounts relating to the Post-Vietnam Educational

Assistance Trust Fund, National Service Life Insurance (NSLI) Fund, United Stated Government Life Insurance (USGLI) Fund, Veterans Special Life Insurance (VSLI) Fund, General Post Fund, National Cemetery Gift Fund, Transitional Housing Loan Program Account, and the Transitional Housing Loan Financing Account. The use of these funds is restricted.

	As of September 30, 1999	1998
Entity Assets		
Trust Funds	**$ 120**	$ 137
Revolving Funds	**5,929**	4,825
Appropriated Funds	**8,266**	8,027
Special Funds	**51**	55
Other Fund Types	**17**	6
Total Entity Assets	**14,383**	13,050
Non-Entity Assets		
Special Funds	**1,771**	1,152
Other Fund Types	**44**	54
Total Non-Entity Assets	**1,815**	1,206
Total Entity And Non-Entity Assets	**16,198**	14,256
Reconciliation Of VA General Ledger Balances With Treasury		
Entity VA General Ledger*	**15,801**	14,224
Reconciled Differences	**368**	21
Unreconciled Differences	**29**	11
Fund Balance With Treasury	**$16,198**	$14,256

*Includes a $17 million write-down adjustment recorded during FY 1999 to reconcile VA's General Ledger to the Fund Balance with the U. S. Treasury.

Note 3 Cash

Cash consists of Canteen Service and Loan Guaranty Program amounts in commercial banks. All other cash receipts and disbursements are processed by the Department of the Treasury. The Loan Guaranty Program held $45 and $38 million in commercial banks as of September 30, 1999 and 1998, respectively. These amounts represent deposits with trustees for offsets against loan loss claims related to sold loan portfolios. The Loan Guaranty Program also had $16 million of deposits in transit as of September 30, 1999.

Cash	As of September 30, 1999	1998
Canteen Service	**$ 1**	$ 1
Loan Guaranty Program	**60**	38
Total Cash	**$61**	$39

Note 4 Investments

Investment Securities		As of September 30,	
Intragovernmental Securities	**Interest Range**	**1999**	**1998**
Special Bonds	5.875 - 11.500%	**$14,213**	$14,243
Treasury Notes*	5.11 - 9.125%	**51**	45
Treasury Bills	3.905 - 4.875%	**36**	39
Subtotal		**14,300**	14,327
Accrued Interest		**272**	285
Total Intragovernmental Securities		**14,572**	14,612
Other Securities			
Accrued Interest			186
Trust Certificates (Loan Guaranty)		**239**	239
Total Other Securities		**$ 239**	$ 425

*The investment in U. S. Treasury notes includes unamortized premiums of $.3 million as of September 30, 1999 and 1998. Premiums and discounts are amortized on a straight-line basis over the life of the investments. U.S. Treasury bills are shown at face value (cost), which is the same as market value, since these securities can be redeemed at any time for their face value.

All VA investments are reported at cost and are redeemable at any time for their original purchase price. Insurance program investments, which comprise most of VA's investments, are in non-marketable U.S. Treasury special bonds and certificates. Interest rates for Treasury special securities are based on average market yields for Treasury issues. The special bonds, which mature during various years through the year 2014, are generally held to maturity unless needed to finance insurance claims and dividends. Other VA programs' investments are in securities issued by the Department of the Treasury, with the exception of the Loan Guaranty Program investments which are in trust certificates issued by the American Housing Trust, a private entity not associated in any way with the Government.

Offset for Losses on Investments

As of September 30, 1999 and 1998, allowances were recorded to reflect estimated losses of principal as a result of the subordinated position in American Housing Trust I-V certificates. The estimated allowance computations were based upon historical loan defaults.

Note 5 Accounts Receivable, Net

	As of September 30,	
Offset For Losses On Investments	**1999**	1998
Investment in Subordinate Certificates at Time of Sale	**$424**	$424
Cumulative Reductions	**(143)**	(139)
Subtotal	**281**	285
Allocation of Loss Provision	**(42)**	(46)
Net Investment	**$239**	$239

VA's Public Accounts Receivable, Net totaled $579 million as of September 30, 1999, and $608 million as of September 30, 1998, and consists mainly of amounts due from patients and third-party insurers for veterans' health care and amounts due from individuals for compensation, pension, and readjustment benefit overpayments. Based on prior experience, allowances for bad debt losses have been established at approximately 19 percent for medical-related receivables and at 73 percent for compensation, pension, and readjustment benefit overpayment-related receivables.

	As of September 30,	
Accounts Receivable, Net	**1999**	1998
Intragovernmental Accounts Receivable	**$ 731**	$ 542
Public Accounts Receivable, Gross	**1,096**	1,165
Allowance for Bad Debts	**(517)**	(557)
Net Public Accounts Receivable	**$ 579**	$ 608

Note 6 Other Assets

	As of September 30,	
Other Assets	**1999**	1998
Intragovernmental Advance Payments	**$181**	$189
Public Advance Payments	**$ 22**	$ 38

Public advance payments are primarily to hospitals and medical schools under house staff contracts, grantees, beneficiaries and employees on official travel. Intragovernmental advance payments are primarily to GSA and GPO for supplies, printing, and equipment.

Note 7 Loans Receivable, Net and Related Disclosures

Direct loan obligations and loan guaranty commitments made after 1991, and the resulting direct loans or loan guaranties, are governed by the Federal Credit Reform Act of 1990. The Act provides that the present value of the subsidy costs associated with direct loans and loan guaranties be recognized as a cost in the year the direct or guaranteed loan is disbursed. Direct loans are reported net of an allowance for subsidy at present value, and loan guarantee liabilities are reported at present value. Pre-1992 direct loans and loan guaranties are reported under the allowance for loss method. The nominal amount of the direct loan is reduced by an allowance for uncollectible amounts, and the liability for loan guaranties is the amount VA estimates will most likely require a future cash outflow to pay default claims.

Interest is accrued on VA-owned loans by computing interest on a loan-by-loan basis at the end of the month and recording the amount owed as an accrual.

Neither loans receivable, net nor the value of assets related to direct loans is the same as the proceeds that an agency would expect to receive from selling its loans.

VA operates the following direct loan and loan guarantee programs:
- ❑ Vocational Rehabilitation and Counseling
- ❑ Education
- ❑ Insurance
- ❑ Loan Guaranty

Loans Receivable
VA's loans receivable represent the net value of assets related to pre-1992 and post-1991 direct loans acquired, defaulted guaranteed loans, and non-defaulted guaranteed loans. For pre-1992 loans, VA employs the allowance for loss method in which the assets are offset by an allowance for loan losses (estimated uncollectible loans). For post-1991 loans, the assets are offset by an allowance for subsidy cost. An analysis of loans receivable, loan guaranties, the liability for loan guaranties, and the nature and amounts of the subsidy and administrative costs associated with the direct loans and loan guaranties is provided as follows.

Total Loans Receivable and Related Foreclosed Property, Net

as of September 30,	Loans Receivable Gross	Interest Receivable	Allowance for Loan Losses	Foreclosed Property	Value of Assets Related to Loans
Direct Loans Obligated Prior to FY1992 (Allowance for Loss Method)					
FY 1999	**$155**	**59**	**(69)**		**$145**
FY 1998	297	36	(76)	118	375
Direct Loans Obligated after FY 1991					
FY 1999*	**$1,713**	**45**	**(124)**	**24**	**$1,658**
FY 1998*	1,162	12	(299)	14	889
Defaulted Guaranteed Loans Pre-1992 (Allowance for Loss Method)					
FY 1999	**$329**		**(299)**	**211**	**$241**
FY 1998	614		(549)	129	194
Defaulted Guaranteed Loans Post-1991 (Present Net Value Method)					
FY 1999	**$44**			**1,119**	**$1,163**
FY 1998	156			998	1,154
Non-Defaulted Guaranteed Loans (Insurance Policy Loans)					
FY 1999	**$927**	**22**			**$949**
FY 1998	941	25			966
FY 1999 Total Loans Receivable and Related Foreclosed Property, Net					**$4,156**
FY 1998 Total Loans Receivable and Related Foreclosed Property, Net					$3,578

*Loans Receivable, Gross includes $.9 million and $.8 million in direct loans for the Vocational Rehabilitation Program in FY 1999 and FY 1998 respectively.

Foreclosed Property

- There are no changes from the prior year's accounting methods.
- There are no restrictions on the use/disposal of the property.
- As of September 30, 1999, and September 30, 1998, VA held 12,044 and 12,542 residential properties. For FY 1999 and FY 1998, the average holding period from the date marketable tilte was obtained until the properties were sold was 6.7 and 6.2 months respectively.
- The number of properties for which foreclosure proceedings are/were in process is 17,906 as of September 30, 1999, and 16,396 as of September 30, 1998.

	As of September 30,	
Guaranteed Loans	**1999**	1998
Outstanding Principal Guaranteed Loans, Face Value	**$214,000**	$203,451
Amount of Outstanding Principal, Guaranteed	**$ 71,900**	$ 70,032
Liabilities for Loan Guarantees Post 1991 Guarantees Present Value	**$ 5,808**	$ 4,705

Guarantee Commitments

As of September 30, 1999, VA had outstanding commitments to guarantee loans that would originate in FY 2000. The number of commitments could not be determined, as VA has granted authority to various lenders to originate VA loans that meet established criteria without prior VA approval. Nearly 90 percent of VA's guaranteed loans originate under this authority.

Provision for Losses on Pre-1992 Loan

One element of the cost of the mortgage loan benefit that VA provides to veterans is the present value of the cost VA will bear as loans already guaranteed default in the future. This cost is reflected in the financial statements as an offset to the value of certain related assets.

The provision for losses on guaranteed loans is based upon historical loan foreclosure results applied to the average loss on defaulted loans. The calculation is also based on the use of the average interest rate of the U. S. interest-bearing debt as a discount rate on the assumption that VA's outstanding guaranteed loans will default over a 12 year period. The discount rate used in the calculation was 6.5 percent and 6.7 percent for FY 1999 and FY 1998 respectively. The components of the provision are as follows:

	As of September 30,	
Provision for Loss	**1999**	1998
Offsets Against Loans Receivable	**$ 53**	$ 36
Offsets Against Foreclosed Property Held for Sale		23
Offsets Against Investments	**42**	46
Reserve for Losses on Guaranteed Loans	**16**	40
Total Provision for Loss	**$111**	$145

Subsidy Expense for Post-1991 Direct Loans

Pursuant to the Credit Reform Act, all direct loans established and guaranteed loans closed after September 30, 1991, will be subsidized. In FY 1999, VA re-estimated the subsidy expense for all loan sale guaranties made between FY 1992 and FY 1998, and estimated the subsidy expense for loan sale guaranties issued in FY 1999. The subsidy expense for direct loans and loan guaranties related to the Loan Guaranty Program is as shown.

Direct Loan Subsidy Expenses
Years Ended September 30,

	1999	1998
Interest Differential	**$ 3**	$(760)
Defaults*	**119**	553
Fees**	**(81)**	(298)
Other***	**86**	986
Subtotal	**127**	481
Interest Modifications Re-estimates	**(154)**	6
Total Direct Loans	**$ (27)**	$ 487

*Includes approximately $123,000 and $160,000 in defaults and other expenses of the vocational rehabilitation program for FY 1999 and 1998 respectively.

**($81) million in fee expense for direct loans includes estimated down payments and other fees collected when homes are sold with vendee financing.

***The $86 million in “Other” subsidy expense for direct loans includes the estimated loss of scheduled principal and interest when vendee loans are sold.

Guaranteed Loan Subsidy Expense
Years Ended September 30,

	1999	1998
Defaults	**$ 3,242**	$ 2,331
Fees*	**(819)**	(1,712)
Other**	**(2,225)**	(180)
Subtotal	**198**	439
Loan Modifications Re-estimates	**307**	159
Total Guaranteed Loan Subsidy Expense	**$ 505**	$ 598

*The ($819) million in fee expenses for guaranteed loans includes estimated up-front fees collected when the loan is guaranteed and the present value of estimated annual fees from loan assumptions.
**The ($2,225) million in "Other" subsidy expense for guaranteed loans includes estimated recoveries on defaults through the sale of foreclosed property.

Loan Sale-Guaranteed Loan Subsidy Expense
Years Ended September 30,

Loan Sales	**1999**	1998
Defaults	**$ 48**	*
Other	**4**	*
Subtotal	**52**	*
Re-estimates	**360**	*
Total Loan Sale -Guaranteed Loan Subsidy Expense	**$412**	*

*Prior to FY 1999, VA did not budget separately for the subsidy expense of loan sale guarantees.

Subsidy Expense
Years Ended September 30,

	1999	1998
Total Direct Loans	**$(27)**	$ 487
Total Guaranteed Loan	**505**	598
Total Loan Sales	**412**	
Total Subsidy Expense	**$890**	$1,085

Administrative Expense

Administrative expense on direct and guaranteed loans for the years ended September 30, 1999 and 1998, was $160 and $161 respectively.

Loan Sales

The Department of Veterans Affairs continues to have vendee loan sales to reduce the administrative burden of servicing vendee loans. During the period FY 1992 through FY 1998, the total loans sold amounted to $8.9 billion. VA completed two sales during FY 1999 totaling approximately $968 million of vendee loans. The components of the vendee sales are summarized in the tables below:

Loans Sales
Years Ended September 30,

	1999	1998
Loans Receivable Sold	**$968**	$1,129
Proceeds From Sale*	**960**	1,170
Loss (Gain) On Receivables Sold	**$ 8**	$ (41)

*Information presented does not reflect the transaction expenses incurred to sell the loans.

Outstanding Balance of Loan Sale Guaranties

All loans sold under the American Housing Trust (AHT VI - AHT XI) and the Vendee Mortgage (VMT 92-1 through 99-2) programs carry a full government guarantee. The outstanding balance for guaranteed loans sold is summarized in the table below:

Guaranteed Loans Sold

	As of September 30, 1999	1998
Outstanding Balance Guaranteed Loans Sold Start of Year	**$6,946**	NA
Guaranteed Loans Sold to the Public	**968**	NA
Payments, Repayments and Terminations	**(304)**	NA
Outstanding Balance Guaranteed Loans Sold End of Year	**$7,610**	NA

Liability for Loan Sale Guarantee (Post-1991)

Starting in FY 1999, VA began reporting the liability on the guarantee of loans sold under the Vendee Mortgage Trust and American Housing Trust programs. All guaranteed loan sales after September 30, 1991, are subject to Credit Reform requirements. For these loans, the guaranteed loan sale liability represents the present value of the estimated net cash flows to be paid by VA as a result of the guarantee. The VA guaranties that the principal and interest payment due on a loan will be paid by the 15th of each month. If the payment is not made, VA allows the loan serviced to receive funds from a cash reserve account for the amount in deficiency. VA also guaranties the loans against losses at foreclosure. Although VA will not buy back the loan, VA will pay off the loan loss and foreclosure expenses. The liability for loan sale guarantee is currently $260 million.

Note 8 Inventories

VA's inventory consists of general supplies, burial flags, precious metals held for sale, and Canteen retail store stock, and is valued at the lower of cost or market. VA follows the Purchases Method of accounting for operating materials and supplies in the hands of the end user.

	As of September 30, 1999	1998
Held for Current Sale	**$65**	$72
Excess, Obsolete and Unserviceable	**10**	17
Held for Repair and Parts	**1**	1
Total Inventories	**$76**	$90

Note 9 General Property, Plant and Equipment

The majority of the general property, plant and equipment is used to provide medical care to veterans and is valued at cost, including transfers from other Federal agencies. Major additions, replacements, and alterations are capitalized whereas routine maintenance is expended when incurred. Construction costs are capitalized as Construction in Progress until completion, then transferred to the appropriate property account. Individual items are capitalized if the useful life is two years or more and the unit price is $25,000 or greater for real property, and $5,000 or greater for personal property. Buildings are depreciated straight-line over estimated useful lives of 25 to 40 years. Equipment is also depreciated straight-line over its useful life, usually 5 to 20 years. There are no restrictions on the use or convertibility of general property, plant and equipment.

All VA heritage assets are multi-use facilities and are classified as general property, plant and equipment. Depreciation totaled $905.5 and $858 million in FY 1999 and FY 1998, respectively.

			As of September 30,	
		Accumulated	1999	1998
	Cost	Depreciation	Net Book Value	
Land and Improvements	$ 177	$ (1)	**$ 176**	$ 166
Buildings	13,219	(5,232)	**7,987**	7,860
Equipment	4,840	(2,646)	**2,194**	2,143
Other	1,633	(865)	**768**	735
Construction in Progress	911		**911**	1,037
Total Property, Plant and Equipment	$20,780	$(8,744)	**$12,036**	$11,941

Note 10 Debt

All intragovernmental debt is due to the U.S. Treasury and is related to borrowing by the Loan Guaranty Program. The interest rates ranged from 4.76-5.81percent and 5.34-5.98 percent in FY 1999 and FY 1998, respectively. VA's financial activities interact with and are dependent upon those of the Federal government as a whole. Intragovernmental debt as of September 30, 1999, and 1998 was $2,540 and $1,777, respectively.

Note 11 Other Liabilities

	As of September 30,	
Intragovernmental Funded Liabilities	1999	1998
Deposit and Clearing Account Liabilities	**$ 15**	$ 10
Deferred Revenue	**19**	14
Resources Payable to Treasury	**731**	995
Special Receipt Accounts*	**2,251**	1,587
General Fund Receipts Liability	**31**	8
Accrued VA Contributions for Employee Benefits	**80**	71
Total Intragovernmental Funded Liabilities	**$3,127**	$2,685

*The special receipt accounts include subsidy re-estimates for loans made after September 30, 1991, which are subject to the provisions of the Credit Reform Act of 1990. The liability provision for future losses on credit reform guaranteed loans is comprised of a funded subsidy for each loan guaranteed at the rate equal to the amount of the present value of estimated loss to the government for the cohorts of loans.The subsidy amount for each cohort is re-estimated annually to ensure the amounts reflect the actual losses on guaranteed loans. Based on the re-estimated amounts, additional subsidy funds are provided or excess funds are returned.

Public Funded Liabilities	As of September 30, 1999	1998
Accrued Funded Annual Leave	**$ 9**	$ 8
Accrued Payables	**1,205**	1,036
Accrued Salaries and Benefits	**558**	505
Contract Holdbacks	**22**	24
Unredeemed Coupons	**1**	1
Deposit and Clearing Account Liability	**45**	48
Unearned Premiums	**143**	150
Insurance Dividends Left on Deposit and Related Interest Payable*	**1,461**	1,390
Capital Lease Liability	**24**	24
Judgment Fund - Funded		2
Dividend Payable to Policyholders	**345**	351
Custodial Liability	**46**	2
Reserve for Losses on Guaranteed Loans	**16**	40
Total Public Funded Liabilities	**$3,875**	$3,581

*Interest earned on dividends left on deposit is paid annually to insurance policyholders on their policy anniversary dates.

Public Unfunded Liabilities	As of September 30, 1999	1998
Annual Leave*	**$ 904**	$ 882
Capital Lease Liability	**1**	3
Judgment Fund-Unfunded**	**82**	67
Accrued FECA Liabiity	**313**	310
Total Public Unfunded Liabilities	**$1,300**	$1,262

*Annual leave is accrued when earned and the accrual is reduced when leave is used. At least once a year, the balance in the accrued annual leave account is adjusted to reflect current pay rates of cumulative annual leave earned but not taken. Sick and other types of leave are expensed as taken.

**The Judgment Fund liability amount represents the estimate for future payments on legal cases that will be paid by the Treasury Judgment Fund on behalf of VA.

Note 12 Leases

VA has both capital and operating leases. Due to the magnitude of operating leases and the decentralization of records, the future commitment for operating leases is not known. VA's FY 1999 operating lease costs were $185 million for real property rentals and $46 million for equipment rentals. The value of VA's capital leases for outpatient clinics are as follows:

Summary Of Assets Under Capital Lease-Present Value	As of September 30, 1999	1998
Land And Buildings	**$28**	$28
Accumulated Amortization	**(1)**	(1)
Net Book Value	**$27**	$27
Present Value of Future Payments Due		
FY 2000	**3**	3
FY 2001	**3**	3
FY 2002	**3**	3
FY 2003	**3**	3
FY 2004	**3**	3
After 2004	**27**	27
Total Future Lease Payments	**$42**	$ 42
Less Imputed Interest	**(13)**	(13)
Executory Costs (e.g., Taxes)	**(5)**	(5)
Net Capital Lease Liability	**$24**	$ 24
Liabilities Covered By Budgetary Resources	**$24**	$24
Liabilities Not Covered By Budgetary Resources	**$ 3**	$ 3

Note 13 Federal Employee and Veterans Benefits

Employee Benefits consist of costs relating to the Federal Employees Compensation Act (FECA) program administered by the Department of Labor (DOL); pension benefits for employees under either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS); and other post-employment benefits such as the Federal Employees Health Benefits Program (FEHB); and the Federal Employees Group Life Insurance (FEGLI) Program. The Office of Personnel Management (OPM) administers these programs.

Imputed Expenses-Employee Benefits	As of September 30, 1999	1998
CSRS	**$270**	$273
FEHB	**445**	420
FEGLI	**1**	1
Total Imputed Expenses-Employee Benefits	**$716**	$694

VA makes contributions on behalf of VA employees covered by the CSRS retirement system. However, VA is not required to fully fund the CSRS pension liability pertaining to VA employees because OPM subsidizes the CSRS pension cost. VA is required to recognize an expense and impute a financing source for the estimated total cost of the pension benefits pertaining to current employees. VA does not fund other post-employment benefits, but is required to recognize an expense and impute a financing source, which is fully financed by OPM.

The FECA liability amount relates to the actuarial estimates provided by DOL for future workers' compensation claims. Once claims are actually billed to VA, they are recorded as an "Other Liability" on the balance sheet. (See Note 11).

Veterans Benefits

Veterans who die or are disabled from military service-connected causes as well as their dependents receive compensation benefits and are provided with burial flags, headstones/markers, and grave liners for burial in either a VA national cemetery or are provided a plot allowance for burial in a private cemetery. These benefits are provided in exchange for a veteran's military service, and are required by SFFAS No. 5 to be recorded as a future liability on VA's balance sheet.

Federal Employees and Veterans Benefits Liability	As of September 30, 1999	1998
FECA	**$ 1,220**	1,310
Compensation	**480,300**	574,427
Burial	**2,900**	3,722
Total Federal Employees and Veterans Benefits Liability	**$484,420**	579,459

The significant decrease in estimates of the compensation and burial benefits liability between September 30, 1998 and 1999 results from the increase in interest rates between these two dates.

VA provides veterans or their dependents with pension benefits, based on annual eligibility reviews, if the veteran died or was disabled from nonservice-connected causes. The actuarial present value of the future liability for pension benefits is a nonexchange transaction and, in accordance with SFFAS No. 5, is not required to be recorded on VA's balance sheet.

Not Reported on VA's Balance Sheet

The projected liability for pension benefits (presented for informational purposes only) as of September 30, 1999 and 1998, was $73,300 and $101,827 respectively.

Assumptions Used to Calculate the Veterans Benefits Liability

Several significant actuarial assumptions were used in the September 30, 1999, valuation of compensation, pension, and burial benefits to calculate the present value of the liability. Future cash flows were discounted in perpetuity. A liability was recognized for the projected benefit payments to: (1) those beneficiaries, including veterans and survivors, currently receiving benefit payments, (2) current veterans who will in the future become beneficiaries of the compensation and pension programs, and (3) a proportional share of those in active military service as of the valuation date who will become veterans in the future. Survivors of those veterans in classes (1), (2), and (3) who receive benefits after the death of the veterans are also incorporated into the projection.

Discount rates were based on rates on securities issued by the Department of the Treasury on September 30, 1999, ranging from 5.22 percent to 6.06 percent, and on September 30, 1998, ranging from 4.41 percent to 4.98 percent. Cash flows were assumed to occur at the midpoint of the fiscal year.

All calculations were done by program. The calculation for pension benefits was performed separately for each law: Old Law, Section 306, and P.L.95-588. Burial liabilities were calculated on an overall basis.

Dollars by category and by age were used in the liability for compensation and pension benefits. Therefore, ratios, trends in case loads, and mortality tables, were used to allocate dollars in these areas.

Life expectancy of veterans is based upon studies by VA actuaries in relation to the Service Disabled Veterans Insurance (S-DVI) Fund adjusted to 1991 and supplemented by adjusted 1991 U.S. mortality rates for young males. The life expectancies for elderly males were determined using the 1994 Uninsured Pensioners mortality table. These rates were brought forward to the present by applying mortality improvements at a rate of 1 percent per annum. The S-DVI study contains mortality information for ages 41 through 75.

Cost of living adjustments (COLAs) were applied to determine the average benefits per veteran for each future time period. COLAs of 3.1 percent and 2.4 percent were assumed for fiscal years 1998 and 1999, respectively. For fiscal years after 1999, COLAs were determined from OMB's estimates prepared in conjunction with the Administration's annual budget.

Expected benefit payments have been explicitly modeled for the next 70 years. This period is roughly the same as that used by the Office of the Actuary of the Social Security Administration (75 years). However, unlike Social Security, estimates of expected benefit payments after this 70-year period were reflected in the liability based on extrapolations reflecting aggregate experience by beneficiary category between the years 65 and 70.

A public law went into effect on October 1, 1998, permitting surviving spouses whose Dependency and Indemnity Compensation (DIC) benefits had previously been terminated as a result of remarriage, and have subsequently become divorced or widowed, to begin collecting DIC benefits again. As a result, the number of new awards to surviving spouses increased by about 20 percent during FY 1999. The future rate of new awards to surviving spouses was estimated to continue at that same level as in the model.

Note 14 Insurance Programs

VA directly administers six life insurance programs for veterans:

1. USGLI was established in 1919 to handle new issues and the conversion of World War I War Risk Term Insurance.

2. NSLI was established in 1940 to meet the needs of World War II service personnel.

3. VSLI was established in 1951 for Korean veterans who did not have service-connected disabilities.

4. S-DVI was established in 1951 for veterans with service-connected disabilities.

5. Veterans Reopened Insurance (VRI) was a one-year reopening in 1965 of NSLI for certain disabled World War II and Korean veterans.

6. Veterans Mortgage Life Insurance (VMLI) was established in 1971 to provide insurance to veterans who have received Specially-Adapted Housing grants.

VA also supervises the administration of the Servicemembers' Group Life Insurance (SGLI) program and a subprogram of SGLI, the Veterans' Group Life Insurance (VGLI) program. SGLI is directly administered by the Prudential Insurance Company of America. This coverage is provided to active members of the military services, cadets attending service academies, and active members of the Armed Forces Reserves, National Guard, and Reserve Officers Training Corp.

The S-DVI and VMLI programs receive appropriations to meet their operating deficits. The NSLI and USGLI programs receive appropriations to fund claims traceable to the extra hazards of military service. The NSLI, USGLI, S-DVI, VSLI, and VRI programs receive appropriations to fund the cost of overpayments waived.

SGLI and VGLI premiums are set by mutual agreement of VA and Prudential. SGLI premiums for Active Duty service personnel, ready Reservists, and Reservists with part-time coverage are deducted from their pay and remitted by each uniformed service to VA, which in turn remits them to Prudential. Veterans insured under VGLI send their premiums directly to Prudential.

VA also monitors Prudential reserve balances to determine their adequacy and may increase or decrease the amounts retained by Prudential for contingency purposes. Amounts withdrawn are held in the SGLI revolving fund and are invested in Treasury Department securities. VA can use the SGLI revolving fund assets to stabilize and to augment participant premiums.

The Treasury Department maintains VA cash balances. The life insurance programs' receipts and disbursements are processed by the Federal Reserve System and Treasury. As required by Title 38, the life insurance programs invest in U.S. Treasury Securities.

Most insurance liabilities are actuarially determined policy reserves representing the present value of future benefits less the present value of future premiums.

Liabilities

The liability amounts for unearned insurance premiums, insurance dividends left on deposit, and dividends payable to policyholders are included in Other Liabilities, Note 11.

Part of the S-DVI and VI&I reserves include future policy benefits which are classified as Insurance Liabilities Not Covered by Budgetary Resources on the Balance Sheet. Actuarial reserve liabilities for VA life insurance programs are based on mortality and interest assumptions at time of issue. These assumptions vary by fund, type of policy, and type of benefit. The interest assumptions range from 2.25 percent to 5.00 percent. The mortality assumptions include the American Experience Table, the 1941 CSO Table, the 1958 CSO Basic Table, and the 1980 CSO Basic Table.

Insurance Liability (Reserve) Balances

Programs	Insurance Death Benefits	Death Benefit Annuities	Disability Income and Waiver of Premium	Other	As of September 30, 1999	1998
					Reserve Totals	
NSLI	$10,285	$189	$279	$68	$10,821	$10,927
USGLI	53	8			61	67
VSLI	1,360	11	47	3	1,421	1,395
S-DVI	412	1	110	1	524	508
VRI	443	2	10	1	456	464
VI&I	93				93	99
Subtotal	$12,646	$211	$446	$73	$13,376	$13,460
Less Liability not Covered by Budgetary Resources					(524)	(524)
Liability Covered by Budgetary Resources					$12,852	$12,935

Insurance-in-Force

The amount of insurance-in-force is the total face amount of life insurance coverage provided by each VA insurance program as of the end of the fiscal year. It includes any paid-up additional coverage provided under these policies. The number of policies represents the number of active policies remaining in the program as of the end of the fiscal year.

	As of September 30, 1999	1998	As of September 30, 1999	1998
Supervised Programs	Number of Policies		Face Value	
SGLI Active duty	**1,431,000**	1,457,000	**$271,107**	$278,012
NSLI Ready Reservists	**792,500**	826,500	**139,483**	149,607
SGLI Post Separation	**105,000**	115,000	**19,392**	21,584
VGLI	**363,660**	367,950	**31,899**	31,471
Total Supervised Programs	**2,692,160**	2,766,450	**$461,881**	$480,674
Administered Programs				
NSLI	**1,802,101**	1,906,825	**$ 17,662**	$18,264
VSLI	**233,893**	240,394	**2,699**	2,730
S-DVI	**154,410**	156,745	**1,440**	1,452
VRI	**82,545**	87,590	**675**	701
USGLI	**17,973**	19,660	**59**	65
VI&I		1,246		6
VMLI	**3,518**	3,679	**201**	206
Total Administered Programs	**2,294,440**	2,416,139	**$ 22,736**	$23,424
Total Supervised and Administered Programs	**4,986,600**	5,182,589	**$484,617**	$504,098

Policy Dividends

The Secretary of Veterans Affairs determines annually the excess funds available for dividend payment. Dividends payable are based on an actuarial analysis of the individual programs at the end of the preceding calendar year. Dividends are declared on a calendar year basis and paid on policy anniversary dates. Policyholders can elect to:

(1) Receive a cash payment.
(2) Prepay premiums.
(3) Repay loans.
(4) Purchase paid-up insurance.
(5) Deposit the amount in an interest-bearing account.

A provision for dividends is charged to operations, and an insurance dividend payable is established when gains to operations are realized in excess of those essential to maintain solvency of the insurance programs.

Policy dividends paid for the years ended September 30, 1999 and 1998, were $755 and $795 million respectively. The policy dividends for premiums paid were $732 and $739 million respectively for FY 1999 and 1998.

Note 15 Unexpended Appropriations

The total unexpended balance is the sum of undelivered orders and unobligated balances. Appropriation acts and other provisions of law provide authority to incur new obligations. An obligation represents an amount that is expected to be expended upon subsequent receipt of goods or services. The obligated balance is the cumulative amount of obligations incurred by VA for which outlays have not been made. Undelivered orders are the amount of goods and services ordered for which delivery or performance has not yet occurred and are included in this balance. An unobligated balance is the amount available after deducting the cumulative obligations from total budgetary resources. In some instances, unobligated balances are not available due to legal constraints regarding the time limit and purpose for which funds can be obligated.

	As of September 30,	
Unexpended Appropriations	**1999**	1998
Unobligated		
(Available)	**$2,603**	$2,176
(Unavailable)	**400**	395
Undelivered Orders		
(Available)	**1,745**	2,158
Total Unexpended Appropriations	**$4,748**	$4,729

Note 16 Contingencies

VA is a party in various administrative proceedings, legal actions, and tort claims arising from various sources including: disputes with contractors, challenges to compensation and education award decisions, loan guaranty indemnity debt cases, and allegations of medical malpractice.

Certain legal matters to which VA may be a named party are administered and, in some instances, litigated by the Department of Justice. Generally, amounts (more than $2,500 for Federal Tort Claims Act cases) to be paid under any decision, settlement, or award are funded from the Judgment Fund, which is maintained by the Department of the Treasury. Of the amounts paid from the Judgment Fund, malpractice cases claimed 80 percent in FY 1999 and 82 percent in FY 1998. Contract dispute payments require reimbursement to the Judgment Fund by VA.

In accordance with OMB Interpretation No. 2 of Federal Financial Accounting Standards, VA has included a liability for pending legal claims that will probably be paid by the Judgment Fund. This liability is established for all pending claims whether reimbursement is required or not. This liability was $82 million for FY 1999 and $67 million for FY 1998. VA is also required to record an operating expense and imputed financing source for the Judgment Fund pending claims and settlements. Judgment fund accounting is shown below:

Judgment Fund
Years Ended September 30,

	1999	1998
Fiscal Year Settlement Payments	**$77.5**	$73.8
Less Contract Dispute Payments	**(7.4)**	(7.5)
Imputed Financing-Paid by Other Entities	**70.1**	66.3
Increase in Liability for Claim	**13.0**	45.9
Operating Expense	**$83.1**	$112.2

It is the opinion of VA's management and Office of General Counsel that resolution of pending legal actions as of September 30, 1999, will not materially affect VA's operations or financial position when consideration is given to the availability of the Judgment Fund appropriation to pay some court-settled legal cases.

The amount of unobligated and obligated authority relating to appropriations cancelled on September 30, 1999, and September 30, 1998, was $102.5 million and $72 million, respectively. Any payments that may arise relating to cancelled appropriations will be paid out of the current year's appropriations in accordance with the provisions of the Expired Funds Control Act of 1990.

Note 17 Environmental and Disposal

The Department of Veterans Affairs had unfunded environmental and disposal liabilities in the amount of $199 million and $139 million for the years ending September 30, 1999, and September 30, 1998, respectively. The majority of the unfunded liability involves asbestos removal, lead abatement, replacement of underground oil and gasoline tanks, decommissioning of waste incinerators, and decontamination of equipment prior to disposal.

While some facilities have applied prevailing state regulations that are more stringent than Federal guidelines, OSHA and EPA are the legal basis for regulations behind the majority of VA's environmental and disposal liabilities. Estimated liabilities for these projects have been computed by the facility engineering staff based on similar projects already completed, or by independent contractors providing work estimates.

Note 18 Disclosures Related to the Statement of Budgetary Resources

The net amount of budgetary resources obligated for undelivered orders at the end of the fiscal year.

- VA has obligations remaining at the end of each year for goods and services ordered but not yet received (undelivered orders).
- Aggregated undelivered orders amounted to $1.9 billion as of September 30, 1999, and $2.4 billion as of September 30, 1998.

Available borrowing authority and contract authority at the end of the period:

- VA does not have any contract authority.

- Loan Guaranty had borrowing authority of $2 billion and $1.4 billion as of September 30, 1999, and September 30, 1998, respectively.
- The vocational rehabilitation program had borrowing authority of $2.3 million as of September 30, 1999, and $3 million as of September 30, 1998, for making direct loans.

Repayment requirements, financing sources for payment, and other terms of borrowing authority used:

- Loan Guaranty borrowing was repaid to Treasury through the proceeds of portfolio loan collections, funding fees, and sale of loans to Vinnie MAC trusts.
- The vocational rehabilitation loans generally had a duration of 1 year, and repayment was made from offsetting collections.

Adjustments during the reporting period to budgetary resources available at the beginning of the year (supplemental appropriation or rescission):

- For fiscal year 1999, VA appropriations were subjected to a rescission of $37.6 million under the provisions of the Emergency Steel Loan Guarantee and Emergency Oil and Gas Guaranteed Loan Act of 1999.
- The majority of the rescission, $35.4 million, was taken from the multi-year medical care account.
- Compensation, Pension, and Burial Benefits received a $550 million supplemental appropriation.

Permanent Indefinite Appropriations–VA has three permanent and indefinite appropriations:

- The Veterans Housing Benefit Program Fund (36X1119) covers all estimated subsidy costs arising from post-1991 loan obligations for Veterans Housing Benefits. The fund's objective is to encourage and facilitate the extension of favorable credit terms by private lenders to veterans for the purchase, construction, or improvement of homes to be occupied by veterans and their families.
- The Loan Guarantee Revolving Fund (36X4025) is a liquidating account, which contains all of VA's pre-credit reform direct and guaranteed loans. It also holds fund balances received from reimbursements from financing accounts for loan modifications and rentals of foreclosed properties not yet transferred to financing accounts. This account is responsible for the property management expenses prior to the sales of foreclosed properties.
- The Native American Direct Loan Account (36X1120) was established to cover all subsidy costs arising from direct loan obligations related to a veteran's purchase, construction, or renovation of a dwelling on trust land.

Information about legal arrangements affecting the use of unobligated balances of budget authority, such as time limits, purpose, and obligation limitations:

- Available unobligated balances on the final Statement of Budgetary Resources are composed of current fiscal year apportioned funds for annual, multi-year, and no-year appropriations from Congress as well as revolving and trust funds. Other balances not available are composed of expired appropriation unobligated amounts which generally are not available for new obligations, but can be used to increase existing obligations under certain circumstances. This amount also includes unobligated funds that were not apportioned by OMB for FY 1999 use.

- Unobligated VA funds are available for uses defined in VA's FY 1999 Appropriation Law (P.L.105-276). These purposes include: veterans' medical care, research, education, construction and maintenance of VA buildings, veterans' and dependents' benefits, veterans' life insurance, loan guaranty programs, veterans' burial benefits, and administrative functions.
- Various obligation limitations are imposed on individual VA appropriations. Examples include travel obligation limitations and limitation of the use of medical care multi-year funds to object classes for equipment, structures, and land.

Note 19 Statement of Net Cost Disclosure

Exchange revenues normally require reporting entities to recover full cost.

- VA's enhanced sharing authority provides legislated exception to the full cost recovery requirement. Arrangements entered into under this authority shall provide for payment to VA in accordance with procedures that provide appropriate flexibility to negotiate payment that is in the best interest of the Government. Increasing the price of items charged might reduce the quantity demanded and thus the revenues.
- VA's Loan Guaranty line of business collects rental fees on a small number of properties during the period when the property is titled to the VA.
- The National Cemetery Administration leases lodges at 16 cemeteries to Not-for-Profit groups for no fee. The Not-for-Profit groups are required to provide the upkeep on the lodges and pay all other costs except for major repairs.
- The National Cemetery Administration has leases with private companies/individuals. The lessee is required to pay all costs of maintaining the land.

Exchange transactions with the public occur when prices are set by law or executive order and are not based on full cost or on market price.

- 38 U.S.C. Chapter 17 substitutes the term "reasonable charges" for "reasonable cost" when billing third party payers for services provided to insured veterans for treatment of non-service-connected conditions. Reasonable charges are based on provider charges in the market area of each VA facility. The lesser of VA's billed charges or the "reasonable charge" will be collected from the third party payers.
- 38 C.F.R. §1.555 governs fees to be charged by the VA for requests of information under the Freedom of Information Act. Educational, non-commercial scientific institutional, representatives of the media, and all other non-commercial users are entitled to receive 100 pages of reproduced material and the first two hours of search time without charge. Commercial use requesters are to be charged the full direct costs of searching for, reviewing for release, and duplicating the records sought.
- The VA is required to collect a co-payment of $2 from veterans with non-service-connected conditions for each 30-day supply of medication furnished on an outpatient basis. This

fee does not cover the cost of the medications in the vast majority of cases.

- VA's Loan Guaranty Line of Business collects certain fees that are set by law. The Loan Guaranty funding fees collected for the year were $638 million. The loan guaranty lender participation fees collected for the year were $2 million.

Intragovernmental exchange transactions in which the entity provides goods or services at a price less than the full cost or does not charge a price at all with explanations for disparities between the billing and full cost.

- VA and the DoD have authority to enter into agreements and contracts for the mutual use or exchange of use of hospital and domiciliary facilities and other resources. The providing agency shall be reimbursed for the cost of the health-care resources based on a methodology agreed to by VA and DoD. Facility Directors have the flexibility to consider local conditions and needs and the actual costs of providing the services. VA's General Counsel has opined that full cost recovery is not mandated.

- The Benefits line of business collects funding from DoD in order to administer certain educational programs within the line of business. DoD transferred $208 million during the year for the VEAP, REPS, and the New GI Bill for Veterans.

Specific goods or services made to order under a contract require disclosure of the full amount of the expected loss when it is probable and measurable.

- VA does not have any contracts where it makes specific goods or provides specific services.

- All of VA's net program costs are part of the 700 (Veterans Benefits and Services) Budget Functional Classification.

Production Costs for the Year Ended September 30, 1999	Medical Care	Medical Education	Medical Research	Compensation	Pension	Education	Vocational Rehabilitation	Loan Guaranty	Insurance	Burial	Total
Governmental Costs	1,332		653								$ 1,985
Less Earned Revenues	(72)		(39)		(17)	(188)			(1,113)		(1,429)
Net Governmental Production Costs	**1,260**		**614**		**(17)**	**(188)**			**(1,113)**		**556**
Public Costs	17,183	830	38	(75,607)	3,266	1,305	509	1,683	1,965	(599)	(49,427)
Less Earned Revenues	(928)		(2)			(173)		(432)	(781)		(2,316)
Net Public Production Costs	**16,255**	**830**	**36**	**(75,607)**	**3,266**	**1,132**	**509**	**1,251**	**1,184**	**(599)**	**(51,743)**
Non-Production Costs											
Hazardous Waste Clean-up	58									1	59
Net Program Costs	**17,573**	**830**	**650**	**(75,607)**	**3,249**	**944**	**509**	**1,251**	**71**	**(598)**	**$(51,128)**
Net Non-VA Program Costs											10
Total Net Cost of Operations											**$(51,118)**

The change in net compensation costs between FY 1999 and FY 1998 is due to fluctuations in the actuarial out-year liability as detailed in Note 13.

Note 20 Dedicated Collections

In the Federal Government, dedicated collections are accounted for in trust funds and special funds. The term "trust funds" as used in this report and in Federal budget accounting is frequently misunderstood. In the private sector, “trust” refers to funds of one party held by a second party (the trustee) in a fiduciary capacity. In the Federal budget, the term “trust fund” means only that the law requires that funds be accounted for separately and used only for specified purposes and that the account was designated as a “trust fund.” A change in law may change the future receipts and the terms under which the fund's resources are spent. The “trust fund assets” represent all sources of receipts and amounts due the trust fund regardless of source. This includes “related governmental transactions,” which are transactions between two different entities within the Federal Government. The “Investments with Treasury” assets are comprised of investments in Federal debt securities and related accrued interest. These securities will require redemption if a fund’s disbursements exceed its receipts. Unless specifically provided for by law, trust funds may only place excess funds in Federally backed investments (e.g., Federal debt securities).

The table on page 104 summarizes the name, type, and purpose of the funds within VA that receive dedicated collections. Special funds pertaining to Loan Guaranty activities are not included in this chart because they only receive transfers for downward re-estimates of subsidy expense. These funds are shown as “cash” on the balance sheet. All of the funds listed use the accrual basis of accounting. However, collections are reported as actually received in accordance with OMB Circular A-34. The insurance funds listed also adhere to the requirements of FASB No. 120 “Accounting and Reporting by Mutual Life Insurance Enterprise” and issue a separate annual report. All of the funds generally receive authority to use current year contributions as well as a portion of previously contributed amounts.

The table on page 105 provides condensed information on assets, liabilities, fund balances, net costs, and changes in fund balances.

Note 21 Statement of Financing Note Disclosure

The total amount of VA liabilities not covered by budgetary resources was $486.4 billion and $581.4 billion as of September 30, 1999 and 1998, respectively. The following table contains the components of the balance sheet liability:

Components of Unfunded Liabilities	As of September 30, 1999	1998
Workers' Compensation*	**$ 1,533**	$1,621
Annual Leave	**904**	882
Judgment Fund	**82**	67
Environmental and Disposal	**199**	139
Capital Leases	**1**	3
Veterans Compensation and Burial	**483,200**	578,149
Insurance	**524**	524
Total	**$486,443**	$581,385

*The actuarial estimate for workers' compensation provided by DOL was computed using an interest rate of 5.5-5.6 percent for FY 1999 and 5.6 percent for FY 1998. The Statement of Financing line “total financing sources yet to be provided” only reflects the amount of increases/decreases in these liabilities. For existing liabilities there will always be a difference between the “financing sources” line and the balance sheet amount

Note 22 Restatements, Reclassifications and Change in Accounting Principles

Restatement of FY 1998 Financial Statements

- Interest income on investments of the Housing Credit Liquidating Fund collected in FY 1999 was actually earned over the period from FY 1992 to 1999. The FY 1998 financial statements have been restated to record the earnings from FY 1992 to 1998. This restatement resulted in the establishment of an interest receivable shown on the "Public Investments" line of $186 million and an offsetting increase in "Other Intragovernmental Liabilities." It also increased the FY 1998 "Transfers-out" line and decreased VA's "Net Cost of Operations" by $61 million.

Reclassifications

- Loan sales' cash reserves were reported on the FY 1998 Balance Sheet as public advances. These reserves should be included on the "Cash" line. This reclassification resulted in an increase to "Cash" and a decrease to "Public Other Assets" of $38 million.

- Insurance program revenues have been reclassified on the FY 1998 Statement of Financing to reflect the inclusion of a new line titled "Less: Trust Fund Receipts Related to Exchange Revenue in the Entity's Budget" added for FY 1999 reporting. This reclassification resulted in an increase to the new line and a decrease to "Non-exchange Revenue not in the Entity's Budget" of $1.2 billion.

- Non-Entity assets reported separately from Entity assets on the FY 1998 Balance Sheet are now included with Entity assets as permitted by the Technical Amendments to OMB Bulletin 97-01. Disclosure of the types and values of Non-Entity assets is made in Note 23.

- Public accrued services payable and contract holdbacks totaling $1.1 billion have been moved from the "Accounts Payable" line on the Balance Sheet to the "Other Public Liabilities" line. The SGL crosswalk for these lines was changed for FY 1999 reporting.

- The reserve for losses on guaranteed loans of $40 million has been moved from the "Loans Receivable, Net" line on the Balance Sheet to the "Other Public Liabilities" line. This reserve is a liability with no associated asset, so it should be reported in the liability section of the Balance Sheet.

- The accrued liability for VA contributions to OPM for employee benefits totaling $71 million has been moved from the "Other Public Liabilities" line on the Balance Sheet to the "Other Intragovernmental Liabilities" line.

- MCCF collections transferred to the Medical Care appropriation were reported as a transfer-out on the FY 1998 financial statements. This transfer should be reported as a reduction in unexpended appropriations by the transferring entity. This reclassification resulted in a reduction of $667 million in the "transfers-out" and "Increase (Decrease) in Unexpended Appropriations" lines on the Statement of Changes in Net Position.

Change in Accounting Principle

The capitalization threshold for VA's fixed assets is being raised from $5,000 to $25,000. The system modifications to account for this change were completed for real property during FY 1999. This change will be in effect for personal property during FY 2000. A new line titled "Cumulative Effect of Change in Accounting Principle" has been included on the Statement of Changes in Net Position to report the $60 million reduction in real property book value.

Note 23 Non-Entity Assets and Liabilities

Entity and Non-Entity assets and liabilities have been combined on the face of the balance sheet and relate primarily to Guaranty and Indemnity Direct Loan Financing Funds, patient funds, and funds for shared purchases of medical equipment.

	As of September 30,	
Non-Entity Assets	**1999**	1998
Intragovernmental		
Fund Balance with Treasury	**$1,815**	$1,206
Accounts Receivable	**1**	
Public Accounts Receivable	**6**	1
Total Non-Entity Assets	**$1,822**	$1,207
Non-Entity Liabilities		
Intragovernmental		
Other (Special Receipt Accounts)	**$1,772**	$1,152
Public Other (Custodial Liabilities Patient Funds)	**50**	55
Total Non-Entity Liabilities	**$1,822**	$1,207

Dedicated Collections

Fund	Type	Treasury Symbol	Authority	Purpose	Financing Source
Medical Care Collections Fund	Special	36x5287	P.L.105-33	Accumulates recoveries from third parties and patient co-payments.	Public, primarily insurance carriers.
Escrowed Funds for Shared Medical Equipment Purchases	Deposit	36x6019	P.L.106 Statue1974	Receives payments from public companies involved in joint purchases of medical equipment.	Public, universities, pharmaceutical companies and other medical organizations.
Personal Funds of Patients	Deposit	36x6020	38 U.S.C. 3204	Temporarily holds funds.	Public and patients.
Employee Allotments for Savings Bonds	Deposit	36x6050		Temporarily holds funds.	Employees.
Cemetery Gift Fund	Trust	36x8129	38 U.S.C. 1007	Expenditure of funds is limited to cemeteries by donor.	Public donors.
National Service Life Insurance Fund	Trust	36x8132	38 U.S.C. 720	Accumulates premiums to insure veterans of WWII.	Public and veterans.
Post-Vietnam Era Education Assistance Program	Trust	36x8133	38 U.S.C. 1622	To subsidize the cost of education to veterans.	Veteran and DoD.
U.S. Government Life Insurance	Trust	36x8150	38 U.S.C. 755	Premiums insure WWI veterans.	Public and veterans.
Veterans Special Life Insurance Fund	Trust	36x8455	38 U.S.C.723 101-228	Premiums insure Korean War Vets without Service-related disabilities.	Public and veterans.

Condensed Information on Assets, Liabilities, Revenues, Expenses and Changes in Fund Balances

Fund Symbols	5287	6019	6020	8129	8132	8133	8150	8455	8180	Total
Assets										
Fund Balance with Treasury	50.0		44		9.4	107.5	0.1	1.4	1.5	**$ 213.9**
Investments with Treasury		.3			12,177.0		81.0	1,701.5	50,9	**14,010.7**
Other Assets	391.4			3	742.3	1.9	4.1	114.6	27.5	**1,281.8**
Total Assets	441.4	.3	44	3	12,928.7	109.4	85.2	1,817.5	79.9	**15,509.4**
Liabilities										
Payables to Beneficiaries			44		1,687.70	1.5	1.6	315.5	0.6	**2,050.9**
Other Liabilities		.3			10,821.1		80.1	1,421.2	1.8	**12,324.5**
Total Liabilities		.3	44		12,508.8	1.5	81.7	1,736.7	2.4	**14,375.4**
Net Position Cumulative Results	441.4			3	419.9	107.9	3.5	80.8	77.5	1,134.0
Total Liabilities and Net Position	441.4	.3	44	3	12,928.7	109.4	85.2	1,817.5	79.9	**15,509.4**
Revenues										
Exchange - Federal	1.6				929.1		5.4	144.1		**1,080.2**
Exchange - Public	615				643.9		(.1)	79.4		**1,338.2**
Non-Exchange - Federal										
Non-Exchange - Public									46	46.0
Total Revenues	616.6				1,573.00		5.3	223.5	46	**2,464.4**
Expenses										
Program Expenses	31.2				1,692.7	13.4	11.6	206.0	44	**1,998.9**
Other Expenses					(106.4)		(5.9)	26.1		**(86.2)**
Total Expenses	31.2				1,586.3	13.4	5.7	232.1	44	**1,912.7**
Net Change in Operations										
Beginning Net Position	432.7			3	433.1	121.7	4.0	89.4	76.0	**1,159.9**
Net Change in Operations	585.4				(13.3)	(13.4)	(0.4)	(8.6)	2.0	551.7
Non-Operating Changes	(576.7)					(.4)			(.5)	(577.6)
Ending Equity	441.4			3	419.8	107.9	3.6	80.8	77.5	**$ 1,134.0**

Required Supplementary Stewardship Information

Heritage Assets

- Heritage assets are PP&E that possess one or more of the following characteristics: historical or natural significance; cultural; educational, or aesthetic value; or significant architectural characteristics. The monetary value of heritage assets is often not estimable or relevant. By nature they are expected to be maintained in perpetuity.

- The Department of Veterans Affairs has medical centers and national cemeteries that meet the criteria for a heritage asset.

- During the reporting period all maintenance expenses were recorded as incurred. Heritage assets are reported in terms of physical units.

Heritage Assets in Units Years Ended September 30,	**1999**	1998
Art Collections	**34**	16
Buildings and Structures	**1,878**	1,655
Monuments/Historic Flag Poles	**294**	60
Other Non-Structure Items	**19**	0
Cemeteries	**154**	91
Total Heritage Assets in Units	**2,379**	1,822

Deferred Maintenance

- Deferred Maintenance is classified as not performed when it should have been or scheduled and delayed to a future period. It is VA policy to assure that medical equipment and critical facility equipment systems are maintained and managed in a safe and effective manner, therefore, deferred maintenance is not applicable to them; and

- VA facilities reported their cost estimates utilizing either the Condition Assessment Survey or Total Life-Cycle Cost Methods.

Deferred Maintenance Years Ended September 30,	**1999**	1998
General PP&E	**$835.4**	602.2
Heritage Assets	**24.1**	20.8
Total Deferred Maintenance	**$859.5**	623.0

Non-federal Physical Property

- The VA Extended Care Facilities Grant Program assists states in acquiring facilities for furnishing domiciliary or nursing home care to veterans, and to expand, remodel, or alter existing buildings for furnishing domiciliary, nursing home, or hospital care to veterans in state homes. Currently these grants may not exceed 65 percent of the total project cost.

- Effective in FY 1999, VA's State Cemetery Grants Program is authorized to pay up to 100 percent of the cost of constructing and equipping state veterans cemeteries. States provide the land and agree to operate the cemeteries. In FY 1999, six new grants were awarded totaling more than $6.9 million.

Grant Program Costs Years Ended September 30,	**1999**	1998
State Extended Care Facilities	**$35.9**	$34.2
State Veterans Cemeteries	**3.3**	6.1
Total Grant Program Costs	**$39.2**	$40.3

Human Capital

- Investment in human capital comprises those expenses for education and training programs for the general public that are intended to increase or maintain national economic productive capacity. It does not include expenses for internal Federal education and training of civilian employees.

- Educational Programs assist active duty and reservist veterans, eligible under the MGIB or the Veterans Educational Assistance Program (VEAP), as well as dependents of veterans who died of service-connected disabilities or whose service-connected disabilities were rated permanent and total.

- The Vocational Rehabilitation Program provides veterans, having a 10 percent service-connected disability rating who are found to have a serious employment handicap, with evaluation services, counseling, and training necessary to assist them in becoming employable and maintaining employment to the extent possible.

Veterans and Dependents Education
Years Ended September 30,

Program Expenses	**1999**	1998
Education and Training – Dependents of Veterans	**$ 135.8**	$ 106.8
Vocational Rehabilitation and Education Assistance	**1,448.1**	1,336.1
Administrative Program Costs	**78.3**	67.5
Total Program Expenses	**$1,662.2**	$1,510.4
Program Outputs		
Dependent Education Participants	**44,423**	42,706
Veterans Rehabilitation Participants	**52,284**	53,004
Veterans Education Participants	**362,010**	372,010

Health Professions Education

Title 38 U.S.C. mandates that VA assist in the training of health professionals for its own needs and for those of the Nation. By means of its partnerships with affiliated academic institutions, VA conducts the largest education and training effort for health professionals in the Nation. Each year, approximately 90,000 medical and other students receive some or all of their clinical training in VA facilities through affiliations with over 1,200 educational institutions including 107 medical schools. Many of these trainees have their health professional degrees and contribute substantially to VA's ability to deliver cost-effective and high-quality patient care during their advanced clinical training at VA.

Health Profession Education
Years Ended September 30,

	1999	1998
Program Expenses		
Physician Residents and Fellows	**$356.6**	$350.9
Associated Health Residents and Students	**42.2**	42.1
Instructional and Administrative Support	**326.9**	337
Total Program Expenses	**$725.7**	$730.0
Program Outcomes		
Health Professions Rotating Through VA:		
Physician Residents and Fellows	**31,012**	29,908
Medical Students	**18,771**	18,549
Nursing Students	**25,549**	24,126
Associated Health Residents and Students	**16,499**	18,613
Total Program Outcomes	**91,831**	91,196

Research and Development

- Investments in research and development comprise those expenses for basic research, applied research, and development that are intended to increase or maintain national economic productive capacity or yield other benefits.

- For FY 1999, VA's R&D general goal related to stewardship was to ensure that VA medical research programs met the needs of the veteran population and contributed to the Nation's knowledge about disease and disability. Target levels were established for the: (1) percent of funded research projects relevant to VA's health-care mission in designated research areas and (2) number of research and development projects. Strategies were developed in order to ensure that performance targets would be achieved.

- In addition, VHA researchers received grants from NIH in the amount of $298 million and $182 million in other grants during FY 1999. These grants were given directly to the researchers and are not considered part of the VA Entity. They are being disclosed here as Required Supplementary Stewardship Information but are not accounted for in the financial statements.

Program Expenses
Years Ended September 30,

	Basic	Applied	Development	1999 Total	1998 Total
Medical Research Service	122.7	75.8		**$198.5**	$203.8
Rehabilitative Research and Development	2.6	17.8	7.7	**28.1**	27.2
Environmental Epidemiology Service		1.5		**1.5**	1.1
Health Services Research and Development		40.2		**40.2**	35.5
Cooperative Studies Research Service		41.8		**41.8**	26.9
Medical Research Support	128.2	182.8	9.6	**320.6**	305.9
Prosthetic Research Support	2.2	3.1	.1	**5.4**	4.8
Total Program Expenses	**255.7**	**363.0**	**17.4**	**$636.1**	$605.2
Research and Development Measures-Actual					
Percent of Funded Research Projects Relevant to VA' s Health-Care Mission				**99%**	99%
Number of Research and Development Projects				**2,013**	1,756

Segment Information

Condensed Balance Sheet

	As of September 30,			
	1999	1998	**1999**	1998
	Suppy Fund		**Enterprise** Fund	
Assets				
Fund Balance with Treasury	**$129**	$101	**$34**	$33
Accounts Receivable, Net	**34**	66	**3**	3
General Property, Plant and Equipment	**8**	8	**10**	10
Other Assets Including Inventory	**34**	39		
Total Assets	**205**	214	**$47**	46
Liabilities And Net Position				
Accounts Payable	**64**	70	**11**	16
Deferred Revenues	**13**	9		
Other Liabilities	**3**	3	**8**	4
Total Liabilities	**80**	82	**19**	20
Cumulative Results of Operations	**125**	132	**28**	26
Total Liabilities and Net Position	**$205**	$214	**$47**	$46
Condensed Net Cost Information				
Total Program Costs	**$ 548**	$511	**$93**	$80
Earned Revenues				
Intra-Departmental	**(437)**	(411)	**(89)**	(74)
Other Federal Entities	**(82)**	(73)	**(6)**	(14)
Non-Federal	**(19)**	(15)		
Total Earned Revenues	**(538)**	(499)	**(95)**	(88)
Net Program Costs	**$ 10**	$ 12	**$ (2)**	$ (8)

Enterprise Fund Services

The Enterprise Fund is the entrepreneurial organizations of the VA Franchise Fund authorized under the Government Management Reform Act (GMRA) of 1994 and provides a wide range of services to both VA and other Federal agencies, including DoD, HUD, and GAO. The Fund consists of six Enterprise Centers:

1. The Financial Services Center (FSC) processes and or provides:
   (a.) Payments.
   (b.) Purchase card transactions and travel vouchers.
   (c.) Electronic data interchange.
   (d.) Accounting support.

2. The Austin Automation Center (AAC): Supports general application and support systems which include:
   (a.) Payroll.
   (b.) Financial management.
   (c.) Vendor payment.
   (d.) Logistics.

(e.) Centralized medical systems and integrated patient care databases.
(f.) Benefits delivery applications.
(g.) Time sharing.
(h.) Communications with VA and non-VA entities.
(i.) Local and wide area network management.
(j.) Office automation support.

3. The VA Records Center and Vault provides services to include:
   (a.) Secure archival storage.
   (b.) Protection and retrieval services for veterans' and other stored Federal records.

4. The VA Law Enforcement Training Center is available to the approximately 2,400 law enforcement personnel working at VA health-care facilities and to Federal law enforcment professionals at other government agencies:
   (a.) Provides special training for police officers who work in health-care or service-oriented environments.
   (b.) Emphasizes training in medical center patient situations.

5. The Security and Investigations Center provides quality and timely investigations and adjudication for employees in sensitive and or public trust positions.

6. The Debt Management Center provides direct collection of delinquent consumer debt owed to VA.

Supply Fund Services functions include:
(a.) Stocking, repairing, and distributing supplies, medical equipment, and devices.
(b.) Providing forms, publications, and a full range of printing and reproduction services.
(c.) Training VA medical acquisition, supply, processing, and distribution personnel.
(d.) Increasing small and disadvantaged business participation in VA contracts.

The primary customer for the VA Supply Fund is VA, but the Fund also has significant sales to other Federal agencies including DoD and HHS.

Balances with Other Federal Entities

Intra-Governmental Assets as of September 30, 1999

Agency	Fund Balance with Treasury	Investments	Accounts Receivable	Other Assets
Treasury	$16,198	$14,572	$651	
DoD			20	
GPO				96
GSA				79
All Other			60	6
Total Intra-Governmental Assets	**$16,198**	**$14,572**	**$731**	**$181**

Intra-Governmental Liabilities as of September 30, 1999

Agency	Accounts Payable	Debt	Other
Treasury	$29	$2,540	$3,013
Other	1		114
Total Intra-Governmental Liabilities	**$30**	**$2,540**	**$3,127**

Intra-Governmental Earned Revenues and Related Costs
Year Ended September 30, 1999

Trading Partner	Earned Revenue
Treasury	$1,410
DoD	234
All Other	109
Total Federal Earned Revenue	**$1,753**

Budget Functional Classification	Gross Cost to Generate Revenue
Veterans Benefits and Services	$2,082

Intra-Governmental Non-Exchange Revenue
Year Ended September 30, 1999

Trading Partner	Transfers-In	Transfers-Out
Treasury	$32	$(700)

Schedule of Budgetary Activity
for period ended September 30, 1999

	Total Outlays	Budgetary Resources	Obligations Incurred	Spending Authority from Offseting Collections and Adjustments	Obligated Balance October 1, 1999	Obligated Balance September 30, 1999
VHA						
0160 Medical Care	**$17,845**	19,614	18,170	487	2,734	2,572
0161 Medical & Prosthetic Research	**344**	392	377	45	122	110
All Other	**577**	1,568	734	267	814	704
Total	**$18,766**	21,574	19,281	799	3,670	3,386
VBA						
0102 Compensation, Pension, and Burial Benefits	**$21,147**	21,988	21,219		1,625	1,697
0137 Readjustment Benefits	**1,445**	1,671	1,636	188	55	58
4025 Housing Credit Liquidating	**(387)**	516	402	785	57	61
4127 Direct Loan Financing	**591**	3,191	2,283	1,599	(7)	86
4129 Guaranteed Loan Financing	**(301)**	6,745	2,632	3,266	139	(194)
8132 National Service Life Insurance Fund	**1,202**	12,352	1,780	531	1,343	1,390
All Other	**1,190**	5,561	3,120	1,776	287	441
Total	**$24,887**	52,024	33,072	8,145	3,499	3,539
NCA						
0129 National Cemetery Administration	**$ 89**	95	92	1	13	15
All Other	**5**	15	5	1	16	15
Total	**$ 94**	110	97	2	29	30
ADM						
0151 General Operating Expenses	**$ 867**	1,199	1,183	310	136	142
All Other	**5**	788	617	612	1	1
Total	**$ 872**	1,987	1,800	922	137	143
Total of all Business Lines	$44,619	75,695	54,250	9,868	7,335	7,098